

Message Text

CONFIDENTIAL

PAGE 01 CAIRO 17343 191516Z
ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05
CEA-01 L-03 H-01 PA-01 PRS-01 AGRE-00 OES-07
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C O N F I D E N T I A L CAIRO 17343

E.O. 11652: GDS
TAGS: EGEN, EFIN, EG
SUBJ: MORE ON SUBSIDIES -- ARAB SOCIALIST UNION SUPPORT
FOR CONTINUANCE OF PRESENT PROGRAM

REF (A) CAIRO 17210 (B) CAIRO 16231, (C) CAIRO 15307
(D) CAIRO 15270 (E) CAIRO 15139 (F) CAIRO 14881,
(G) CAIRO 14171 (H) CAIRO 14131 (I) CAIRO 13948
(J) 13763

1. ACCORDING AL AKHBAR, ARAB SOCIALIST UNION ECONOMIC
COMMITTEE ANNOUNCED OCT 17 ITS SUPPORT FOR MAINTENANCE OF
SUBSIDIES ON KEY COMMODITIES INCLUDING BREAD, SUGAR, TEA,
EDIBLE OIL AND CLOTHING. PARTY COMMITTEE EXPRESSED
WELL-WORN BELIEF THESE ITEMS OF MAJOR IMPORTANCE TO LOWER
INCOME GROUP, WHICH COMPRISE BULK OF EGYPT'S POPULATION.

2. PRESS COVERED CONCURRENTLY CAIRO CHAMBER OF COMMERCE
SUPPORT FOR MAINTENANCE OF SUBSIDY PROGRAM, NOTING CHAMBER
PROPOSED INCREASED TAXES ON TOURIST SHOPS, ACTIVITIES AND
PREPARED SWEETS. PM SALEM REITERATED HIS CONCERN THAT
PEOPLE'S VIEW ON WAGES AND PRICE BE HEARD AND SAID GOE
SHOULD PREPARE COMPREHENSIVE WORKING PAPER ON THESE ISSUES.

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PAGE 02 CAIRO 17343 191516Z

3. COMMENT: IN AUGUST GOE LAUNCHED PUBLIC CAMPAIGN TO HIGHLIGHT
EVILS OF SUBSIDY PROGRAM. POST CATALOGED THESE EDUCATIONAL
EFFORTS IN REFS F, H, I, AND J. DEPRIMIN KAISOUNI, WHO
ASSUMED ROLE AS PRINCIPAL SPOKESMAN FOR ECONOMIC REFORM,
CALLED FOR ELIMINATION OF SUBSIDIES AS NECESSARY STEP TO
AMELIORATE EGYPT'S ECONOMIC SITUATION. AT SAME TIME, HOWEVER,

KAISSOUNI PROPOSED CHANGES BE APPROACHED DEMOCRATICALLY AND CALLED FOR PEOPLE TO PARTICIPATE IN DISCUSSION PROCESS. PM SALEM AND ECONOMIC GROUP JOINED PUBLIC DEBATE ON ISSUE, WITH SALEM CRUSADING AGAINST MAINPULTORS AND PROFITEERS WHO USED SUBSIDIES TO THEIR BENEFIT.

4. RECENT PRESS COVERAGE SEEMS TO HAVE ILIMINATED SUBSIDIES ON BASIC COMMODITIES FROM DEBATE, WITNESS ASU'S RECENT RPONOUNCEMENT (PARA 1) WHICH SUPPORTS RETINTION OF SUBSIDIES ON WHEAT, TEA, SUGAR, EDIBLE OILS AND CLOTHING. SAME COMMODITIES WERE MENTIONED LAST WEEK BY MINTRADE/SUPPLY TEWFIG AS ITEMS NECESSITATING CONTINUED GOVERNMENT SUBSIDIES. PRESIDENT SADAT, WHO FIRST DELIMITED BASIC COMMODITIES AS SEPARATE FROM REST OF SUBSIDY PROGRAM IN SEPT 28 SPEECH (REF B), APPEARS TO HAVE RESTRICTED CABINET ACTION ON SUBSIDY CUTS TO "LUXURY" OR UNNECESSARY ITEMS. OTHER CHANGES IN PROGRAM WOULD REQUIRE PEOPLES ASSEMBLY APPROVAL. LEGISLATIVE BODY, HOWEVER, LACKS ECONOMIC SPOHISTICATION TO ACCEPT ELIMINATION OF SUBSIDIES AND WOULD NO DOUBT OPPOSE ADMINISTRATION'S EFFORTS TO PUSH PROPOSALS OF THIS NATURE IN THAT FORUM UNLESS CONVINCING AND POLITICALLY-PALATABLE CASE CAN BE MADE. IT SEEMS EVIDENT THAT GOE HAS CAVED ON IDEA OF ELIMINATING ALL SUBSIDIES BY END OF 1977.

5. ASIDE FROM UNDERSTANDABLE UNPOPULARITY OF DESUBSIDIZATION, GOE MOVE TO TAKE OUT BASIC COMMODITIES FROM SUBSIDY DEBATE
CONFIDENTIAL

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PAGE 03 CAIRO 17343 191516Z

MAY ALSO HAVE BEEN COMPLICATED BY INTERNAL DISSENSION AMONG MINISTERIAL GROUP. DEPPRIMIN GHANEM (MINEDUCATION) TOLD AMBASSADOR INFORMALLY THAT HE IS LEADING CABINET LEVEL OPPOSITION TO KAISSOUNI'S PROPOSAL THAT ALL SUBSIDIES BE ELIMINATED. GIVEN LACK OF CONSENSUS AMONG ADMINISTRATION LEADERSHIP, GOVERNMENT POSSIBLY BELIEVES THERE ARE CLEAR BOUNDARIES TO WHAT COULD BE DONE ON SUBSIDY ISSUE.

6. HOW IMF WILL REACT TO GOE APPROACH IS DIFFICULT TO PREDICT. STANDBY ASSESSMENT TEAM WHICH ARRIVED OVER WEEKEND HAS BEEN GREETED WITH SERIES OF SEEMINGLY GRATUITOUS REMARKS BY MINFIN AND MINTRADE/SUPPLY CLAIMING THAT NO PRELIMINARY AGREEMENTS HAVE BEEN REACHED ON SUBSIDY ISSUE AND SUPPORT PRICES ON BASIC COMMODITIES WILL REMAIN (REF A). ON OTHER HAND, GOE ECONOMIC GROUP APPARENTLY IS AWARE THAT EXTENDED CREDIT FACILITY APPROVAL WILL PROBABLY HINGE ON THIS ISSUE. FRG AMBASSADOR STELTZER, WHO CALLED ON AMBASSADOR OCT 18, COMMENTED THAT RECENT REPORT ON EGYPTIAN ECONOMY BY FORMER FRG FINANCE MINISTER MOELLER CAUTIONED SADAT AND GOE AGAINST MOVING TOO RAPIDLY ON SUBSIDY ISSUE. ACCORDING STELTZER, MOELLER, AS FORMER POLITICAN, IS MORE HIGHLY SENSITIZED THAN IMF TO POSSIBLE POLITICAL RAMIFICATIONS THAT DRASTIC DESUBSIDIZATION MAY

HAVE ON GOVERNMENT STABILITY. MOREOVER, DISSENSION AMONG CABINET OFFICIALS MENTIONED ABOVE ALMOST CERTAINLY REFLECTS UNPUBLICIZED CONCERN THAT TOO RAPID ACTION MAY STIMULATE REPEAT OF LAST JANUARY RIOTS. GOE MAY BE PLANNING TO USE MOELLER CONCLUSIONS AS RATIONALE FOR MORE GRADUAL ELIMINATION POLICY.

7. IT IS TOO EARLY TO ASSESS WHAT GOE IS ATTEMPTING WITH ITS SHADING IN RHETORIC, BUT IT APPEARS GOVERNMENT MAY BE TRYING BALANCING ACT TO CONVINCE IMF ON ONE HAND IT INTENDS TO ELIMINATESUBSIDIES ON NONESSENTIAL ITEMS WHILE RETAINING THEM (AND SUBSTANTIAL PORTION OF SUBSIDY BUDGET) ON WHAT IT CONSIDERS ESSENTIALS. AT SAME TIME, DISCUSSION IN PRESS AND CALL FOR PUBLIC DISCUSSION OF SUBSIDY ISSUE MAY BE EFFORT TO CONFIDENTIAL

CONFIDENTIAL

PAGE 04 CAIRO 17343 191516Z

LEAD ILLUSION OF DEMOCRATIC PROCESS IN WHAT MUST NECESSARILY BE A TIMELY AND PROBABLY UNILATERAL DECISION ON PART OF GOE IF THEY ARE TO SATISFY IMF ON MONETARY POLICY QUESTIONS. WHETHER OR NOT THISSTRATEGY WILL PROVE SUCCESSFUL IS NOT CLEAR. IT ALSO APPEARS GOE MAY BE CONTEMPLATING MOVES IN OTHER POLICY DIRECTIONS WITH LESS FANFARE -- E.G., RAISING TRANSIT FARES, LOWERING SUBSIDIES ON COOKING GAS, HIGHER SALES TAXES, ETC.-- IN ORDER TO PRESENT PALATABLE PACE. EILTS

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